

Office of the Legislative Auditor

State of Montana



Report to the Legislature

February 1991

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1990

Board of Public Education

This report contains two recommendations related to compliance with state policies. These recommendations address:

- ▶ Internal control over expenditures, cash, and state per diem allowances.
- ▶ Proper recording of revenue.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
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STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

February 1991

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Public Education for the two fiscal years ended June 30, 1990. This report contains two recommendations relating to state compliance. These recommendations address internal controls over cash, expenditures, per diem allowances and revenue classification. The board's written response to the audit recommendations is included in the back of our audit report.

We thank the chairman of the board and the board's staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor



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Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1990

Board of Public Education

Members of the audit staff involved in this audit were Maryrose Beasley, Scott Hoversland, Jim Manning, and Gary Trescott.

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Elected, Appointed, and Administrative Officials

Board of Public Education

Stan Stephens, Governor*

Nancy Keenan, Superintendent of Public Instruction*

John Hutchinson, Commissioner of Higher Education*

		<u>Term Expires</u>
William Thomas, Chairman	Great Falls	1993
C. John Kinna, Vice Chairman	Helena	1996
Alan Nicholson	Helena	1992
Thomas A. Thompson	Heart Butte	1994
Anita A. Johnson	Lewistown	1995
Ron Fernelius	Missoula	1997
Sarah Listerud	Wolf Point	1998
Kathryn Van Tighem, Student Representative	Helena	1991

*ex officio members

Administrative Official

Wayne Buchanan, Ph.D., Executive Secretary

Cindy Blanton, Administrative Assistant

Kathleen Harrington, Researcher

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the board's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the board implement an adequate system of internal control over cash and expenditures..	5
	Agency Response: Concur. See page 20.	
<u>Recommendation #2</u>	We recommend the board record revenue in accordance with state law and policy.	6
	Agency Response: Concur. See page 20.	

Introduction

We performed a financial-compliance audit of the Board of Public Education (board) for the two fiscal years ended June 30, 1990. The audit objectives were to:

1. Determine if the board complied with applicable state laws and regulations.
2. Make recommendations for improvement in management and internal control of the board's operations.
3. Determine if the board's financial schedules present fairly the results of operations for the two fiscal years ended June 30, 1990.

This report contains two recommendations to the board. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations. Based on the results of our audit we issued a qualified opinion on the board's financial schedules (see the auditor's report on page 9).

Background

The Montana Board of Public Education was created by Article X, Section 9, of the 1972 Montana Constitution. The board consists of three ex officio members and seven members appointed by the governor and confirmed by the senate. Members are appointed for seven-year overlapping terms. A student, selected annually by the Montana Association of Student Councils, also sits as a nonvoting member of the board. The board operates an office in Helena with five full-time employees.

The Board of Public Education exercises general supervision over the public school system and such other public educational institutions as may be assigned by law. The Board of Public Education's statutory responsibilities include the establishment of policies for: school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards and regulations, student assessment, school transportation,

Introduction

high school equivalency certifications, gifted and talented programs, and the designation of school days and hours.

The 50th Legislature created the Certification Standards and Practices Advisory Council to the board. The council consists of seven members appointed by the board. It is the responsibility of the council to study and make recommendations to the board in the following areas: teacher, administrator and specialist certification standards; teacher education programs; standards of professional practices and ethical conduct; and policies relating to the denial, suspension, and revocation of teaching certificates and the appeals process.

The board is responsible for the general supervision of the Montana School for the Deaf and Blind and was responsible for the general supervision of the Montana Fire Services Training School (FSTS) in fiscal year 1988-89. Chapter 20, Laws of 1989, reassigned the FSTS to the Board of Regents effective July 1, 1989. At the request of the board, the School for the Deaf and Blind and the Montana Fire Services Training School were audited separately and the reports are issued under separate covers.

Prior Audit Recommendations

Prior Audit Recommendations

The prior audit of the Board of Public Education was conducted for the two fiscal years ended June 30, 1988. There was one prior audit recommendation regarding the recording of grant revenue which was applicable for fiscal year 1988-89. The recommendation was not implemented (see page 5).

Findings and Recommendations

State Compliance

Internal Control

During our audit of the Board of Public Education, we noted instances where internal control over meal allowances, expenditures and cash were weak, nonexistent, or bypassed by the present and previous administrations. The board's administrative staff experienced 100 percent turnover at the beginning of fiscal year 1990-91. The current staff followed the previous administrator's procedures. They did not realize weaknesses existed in the system, or that those procedures were not in compliance with state policies. Examples of internal control problems that we encountered during our audit are discussed below.

The board held several meetings at various local establishments. As part of the meeting costs, the board paid establishments directly for certain meal and room rental costs. When the board held its meetings in the board's conference room, they had lunch catered in for all those in attendance including employees. These lunches were paid directly to the caterer. We noted the cost of the individual meals at these meetings were above the allowable state rate. Many persons who received the meals were not away from their designated headquarters and, as such, did not qualify for the meal allowance. Section 2-18-501, MCA, authorizes board members per diem at allowable state rates, when in travel status. The board's internal controls over per diem expenditures should ensure compliance with state law.

During our examination of board expenditures, we noted:

- purchase discounts were not taken,
- payments were made for the incorrect amount,
- one invoice was paid twice,
- payments were made to other state agencies on state warrants rather than on no warrant transfers,
- payment vouchers lacked supporting documentation.

Findings and Recommendations

The board should implement internal control procedures and provide training on state policies to mitigate occurrences such as those noted above.

The Board of Public Education maintains a \$25 petty cash fund. The current administrative staff was not aware of the existence of the fund until our audit. The file cabinet containing the money did not have a lock. Potential exists for cash to be misappropriated when the person responsible does not know of its existence, or does not keep it secured.

In the present system, potential exists for loss or misuse of state funds. It is the current administration's responsibility to ensure accuracy in the accounting records and compliance with state policies.

Recommendation #1

We recommend the board implement an adequate system of internal control over cash and expenditures.

Revenue Classification

The Board of Public Education received a private grant of \$10,000 during fiscal year 1989 from the National Governors' Association's Center for Policy Research (NGA). The revenue was recorded on the state's accounting records, as federal assistance, in fiscal years 1987-88 and 1988-89, causing a misstatement in the Special Revenue Fund for each of those years. The improper recording of the fiscal year 1987-88 grant money resulted in a prior audit recommendation.

State law, section 17-2-102, MCA, defines federal Special Revenue Funds as money deposited in the state treasury from federal sources. The "other special revenue funds" are defined as money deposited in the state treasury from private sources. The Montana Operations Manual states the federal assistance revenue class is to include only revenue received from a federal

Findings and Recommendations

agency. Private grant revenue should be recorded in a nonfederal revenue class.

Agency personnel said they were not aware of the misclassification, as it occurred under the previous administration.

Recommendation #2

We recommend the board record revenue in accordance with state law and policy.

Independent Auditor's Report & Board Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented.

The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments for errors noted during the audit. This is done to convey the degree of reliance users may place on this SBAS information.

The qualified opinion on the schedules means the reader should use caution when using the information presented. Some of the revenue is not presented in conformity with state accounting policy.

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Board of Public Education for each of the two fiscal years ended June 30, 1989 and 1990, as shown on pages 10 through 16. The information contained in these schedules is the responsibility of the board's management. Our responsibility is to express an opinion on those financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

The board recorded a private grant as federal assistance during fiscal year 1988-89. As a result, federal assistance was overstated and private grants, contracts, and donations were understated by \$10,000 on the Schedule of Budgeted Revenue By Fund and Class - Estimate and Actual, for the two fiscal years ended June 30, 1990.

In our opinion, except for the matter discussed in paragraph four, the financial schedules referred to in the first paragraph present fairly in all material respects, the results of operations and changes in fund balances of the Board of Public Education for the two fiscal years ended June 30, 1990, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

October 31, 1990

BOARD OF PUBLIC EDUCATION
 SCHEDULE OF CHANGES IN FUND BALANCES
 FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1990

	<u>General Fund</u>	<u>Special Revenue Fund</u>
FUND BALANCE: July 1, 1989	\$ <u>0</u>	\$ <u>4,391</u>
ADDITIONS		
<u>Fiscal Year 1988-89</u>		
Support From State of Montana	\$145,477	
Budgeted Revenue & Transfers In		\$ 10,000
Cash Transfers In		47,393
Direct Entries to Fund Balance	61	
<u>Fiscal Year 1989-90</u>		
Support From State of Montana	125,014	
Cash Transfers In		<u>72,919</u>
Total Additions	<u>270,552</u>	<u>130,312</u>
REDUCTIONS		
<u>Fiscal Year 1988-89</u>		
Budgeted Expenditures & Transfers Out	145,538	61,518
Prior Year Expenditures	(2,428)	
Prior Year Expenditure Adjustments	2,428	
<u>Fiscal Year 1989-90</u>		
Budgeted Expenditures & Transfers Out	<u>125,014</u>	<u>64,772</u>
Total Reductions	<u>270,552</u>	<u>126,290</u>
FUND BALANCE: June 30, 1990	\$ <u>0</u>	\$ <u>8,413</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 16.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF BUDGETED REVENUE BY FUND AND CLASS
ESTIMATE & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1990

	Licenses and <u>Permits</u> ¹	<u>Federal</u>	<u>Total</u>
<u>Fiscal Year 1989-90</u>			
SPECIAL REVENUE FUND			
Estimated Revenue	\$ 67,650		\$ 67,650
Actual Revenue	<u>0</u>		<u>0</u>
Collections Over (Under) Estimate	\$ <u>(67,650)</u>		\$ <u>(67,650)</u>
 <u>Fiscal Year 1988-89</u>			
SPECIAL REVENUE FUND			
Estimated Revenue	\$ 50,000	\$10,000 ²	\$ 60,000
Actual Revenue	<u>0</u>	<u>10,000</u>	<u>10,000</u>
Collections Over (Under) Estimate	\$ <u>(50,000)</u>	\$ <u>0</u>	\$ <u>(50,000)</u>

¹ The licenses and permits estimated revenue is for teachers certification licenses. The actual revenue was received at Office of Public Instruction and transferred to Board of Public Education at fiscal year-end, as a cash transfer.

²See note 6.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 16.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	<u>Board of Public Education</u>	<u>Advisory Council</u>	<u>Total</u>
PERSONAL SERVICES			
Salaries	\$ 64,471	\$ 36,061	\$100,532
Other Compensation	7,325		7,325
Employee Benefits	<u>13,036</u>	<u>8,490</u>	<u>21,526</u>
Total	<u>84,832</u>	<u>44,551</u>	<u>129,383</u>
OPERATING EXPENSES			
Other Services	16,836	2,618	19,454
Supplies & Materials	1,946	1,189	3,135
Communications	5,446	2,303	7,749
Travel	10,847	10,403	21,250
Rent	264	528	792
Repair & Maintenance	1,200	1,127	2,327
Other Expenses	<u>3,643</u>	<u>2,053</u>	<u>5,696</u>
Total	<u>40,182</u>	<u>20,221</u>	<u>60,403</u>
TOTAL PROGRAM EXPENDITURES	\$ <u>125,014</u> ¹	\$ <u>64,772</u>	\$ <u>189,786</u>
GENERAL FUND			
Budgeted	\$ 126,975		\$126,975
Actual	<u>125,014</u>		<u>125,014</u>
Unspent Budget Authority	\$ <u>1,961</u>		\$ <u>1,961</u>
SPECIAL REVENUE FUND			
Budgeted		\$ 69,299	\$ 69,299
Actual		<u>64,772</u>	<u>64,772</u>
Unspent Budget Authority		\$ <u>4,527</u>	\$ <u>4,527</u>

¹See note 7.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 16.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	<u>Board of Public Education</u>	<u>Advisory Council</u>	<u>Total</u>
PERSONAL SERVICES			
Salaries	\$ 74,354	\$ 34,989	\$ 109,343
Other Compensation	7,625		7,625
Employee Benefits	<u>15,486</u>	<u>7,984</u>	<u>23,470</u>
Total	<u>97,465</u>	<u>42,973</u>	<u>140,438</u>
OPERATING EXPENSES			
Contracted Services	26,839	792	27,631
Supplies & Materials	4,009	163	4,172
Communications	8,614	1,233	9,847
Travel	14,307	5,894	20,201
Rent	718	239	957
Repair & Maintenance	2,208	192	2,400
Other Expenses	<u>1,410</u>		<u>1,410</u>
Total	<u>58,105</u>	<u>8,513</u>	<u>66,618</u>
TOTAL PROGRAM EXPENDITURES	<u>\$ 155,570</u>	<u>\$ 51,486</u>	<u>\$ 207,056</u>
GENERAL FUND			
Budgeted	\$ 169,473		\$ 169,473
Actual	<u>145,538</u>		<u>145,538</u>
Unspent Budget Authority	<u>\$ 23,935</u>		<u>\$ 23,935</u>
SPECIAL REVENUE FUND			
Budgeted	\$ 10,032	\$ 51,570	\$ 61,602
Actual	<u>10,032¹</u>	<u>51,486</u>	<u>61,518</u>
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 84</u>	<u>\$ 84</u>

¹See note 6.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 14 through 16.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1990

1. Summary of Significant Accounting Policies

Basis of Accounting

The state of Montana uses the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

1. If the appropriation provided funds to complete a given project, the entire amount of an existing service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
2. The anticipated cost of equipment is expensed in the fiscal year in which a purchase order has been issued.
3. Goods ordered, but not received as of the fiscal year-end may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
4. Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the current fiscal period.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the board:

Notes to the Financial Schedules

Governmental Funds

General Fund - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation authority is required to spend from this fund. These accounts include the advisory council for fiscal years 1988-89 and 1989-90 and the National Governors Association Grant for fiscal year 1988-89, only.

2. Annual and Sick Leave

Employees at the board accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the presented financial schedules of the Board of Public Education. Expenditures for termination pay currently are absorbed in the annual operational costs of the board. At June 30, 1990 the board had a liability of \$1,486 for vacation leave and \$124 for sick leave.

4. General Fund Balance

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

5. Related Party

The Montana School for the Deaf and Blind Foundation, Inc. was formed in October 1983, pursuant to Section 20-8-111, MCA. The board appoints the directors of the Foundation of which at least one member is also a member of the Board of Public Education. The Foundation works under a contract with the Board of Public Education. It files reports with the board demonstrating contract fulfillment. It is to receive, hold, manage, use, and dispose of real personal property given to the Board of Public Education or to the state of Montana, by purchase, gift, devise, bequest, or otherwise acquired, and the

Notes to the Financial Schedules

proceeds, interest and income thereof are to be used for the benefit of the Montana School for the Deaf and Blind.

6. NGA Grant

During fiscal year 1988-89, the board received a \$10,000 grant from the National Governor's Association. It was recorded as Federal Assistance in the Special Revenue Fund rather than as nonfederal money. The grant was not renewed in fiscal year 1989-90, and as a result, the Board of Public Education Program revenue and expenditures in the Special Revenue Fund were zero.

7. Decrease in Expenditures

The decrease in fiscal year 1989-90 Board of Public Education personal services and operating expenditure from fiscal year 1988-89 amounts is a result of the termination of the Project Excellence Study. The termination of the study eliminated approximately \$35,000 in expenditures.

8. Pension Plan

Employees are covered by the Montana Public Employees' Retirement System or Teachers' Retirement System. The board's contributions to these plans were \$7,400 and \$6,956 in fiscal years 1988-89 and 1989-90, respectively.



Board of Public Education

BOARD MEMBERS

EX OFFICIO MEMBERS:

Stan Stephens, Governor

Nancy Keenani, Superintendent
of Public Instruction

John Hutchinson, Acting
Commissioner

APPOINTED MEMBERS:

Bill Thomas, Chairperson
Great Falls

John Kinna, Vice-Chairperson
Helena

Ronald Fernelius
Missoula

Anita Johnson
Lewistown

Sarah Listerud
Wolf Point

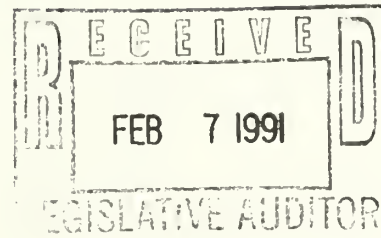
Alan Nicholson
Helena

Tom Thompson
Heart Butte

Wayne Buchanan
Executive Secretary

February 27, 1991

Jim Manning, Audit Manager
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620



Dear Mr. Manning:

Following is my written response to the audit report for the audit that your office conducted for the Board of Public Education for fiscal years 1989 and 1990. The audit report contains two principal recommendations which will be the central focus of this letter.

The first recommendation addressed internal control over expenditures, cash, and state per diem allowances. I concur with this recommendation. As the preliminary audit report indicates, there were several incidences of minor infractions of state policy concerning expenditures that were committed by this office. The infractions noted in the report have been corrected under our current operating procedures and steps have been taken to minimize their reoccurrence. Specifically, office personnel have been informed of proper procedures for taking purchase discounts, and for the need for attention to state policy regarding reimbursement of Board members and payment of invoices. The petty cash fund has been placed under lock and key and proper documentation for its use has been instituted.

The second recommendation concerned a private grant which was recorded under an inappropriate revenue class. The private grant was obtained under a special program to review state accreditation standards and is not a regular part of the Board's operation. While the donation of private funds was unique, if similar funds are received in the future, they will be recorded in accordance with state policy.

I hope this adequately addresses the concerns of your office regarding the fiscal and procedural operations of the Board and its staff. Thank you for the consideration of the members of your staff in the conduct of the audit and for their assistance in the implementation of these recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Wayne G. Buchanan".

Dr. Wayne G. Buchanan
Executive Secretary

